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July 12, 2002

**BY OVERNIGHT MAIL**

Re: *In the Matter of the Provision of Basic Generation Service ("BGS") Pursuant to the Electric Discount And Energy Competition Act, N.J.S.A. 48:3-57*  
*Docket No. EX01110754*

Jeanne M. Fox  
President  
Board of Public Utilities  
Two Gateway Center  
Newark, NJ 07102



Next Day Air Tracking Number

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Dear President Fox:

We represent Geophonic Networks, Inc. ("Geophonic"). We are writing in connection with the Order Establishing Procedures adopted June 6, 2002 by the Board of Public Utilities in the above-referenced matter (the "June 6 Order"). We understand that the June 6 Order establishes a procedural schedule for BPU's review of proposals for the provision of Basic Generation Service ("BGS") as well as BPU's resolution of this matter.

Geophonic is the owner of U.S. Patent No. 6,047,274 (the "'274 Patent"). A copy of the '274 Patent is enclosed. The '274 Patent covers auctions for the provision of energy such as the BGS auction approved by the BPU on December 11, 2001 and held on February 4 - 13, 2002.

Geophonic recommends that any procedures approved by the BPU for the procurement of BGS through a process similar to the February 2002 auction take into account Geophonic's patent rights. Geophonic is willing to provide a license to the four participating

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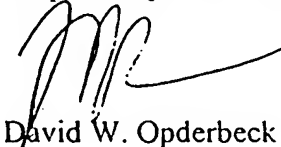
New Jersey electric distribution companies (the "EDCs"), at a reasonable royalty rate, for the use of its patented energy auction process in BPU-approved BGS auctions. By letter dated April 30, 2002, Geophonic advised the EDCs of its rights under the '274 Patent and proposed a reasonable royalty rate. (See copy of our April 30, 2002 letter enclosed herewith.) We understand from the EDC's counsel that they are reviewing our April 30, 2002 letter.

Your colleagues at the Board will likely recall that Geophonic informed the Board of the '274 Patent at the BPU's public hearing on October 4, 2001 in regard to the then-pending initial BGS auction – ultimately held in February 2002. Geophonic also advised the BPU by letter dated November 2, 2001 (a copy of which was sent to each EDC) that Geophonic was willing to provide a license to the EDCs and/or the BPU on reasonable terms. The EDCs retained outside patent counsel to review this matter. Such counsel sent a letter to Geophonic dated January 25, 2002 requesting certain information from Geophonic. We responded to that request in our April 30, 2002 letter (attached).

We respectfully request that the BPU give due consideration to Geophonic's patent rights when evaluating proposals for the upcoming BPU auction process. In this context, we suggest the BPU may find it helpful to review the provisions of the EDC's joint BGS proposal filed July 1, 2002 relating to the recovery of all costs associated with the BGS auction process. The EDCs propose that the winning bidders, rather than the EDCs or the users, pay per tranche fees set at levels which, in the aggregate, will cover all such costs. These per tranche fees are to be set at least 10 days prior to the start of the auction. Royalty payments payable pursuant to a license to Geophonic could presumably be recovered by the EDCs as one of the costs associated with the BGS auction process.

We will be happy to answer any questions the BPU may have regarding the '274 Patent or Geophonic's license proposal to the EDCs.

Respectfully submitted,



David W. Opderbeck

cc: Nusha Wyner  
Irah H. Donner, Esq.

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April 30, 2002

**BY FEDERAL EXPRESS**

**Re:   *Geophonic Networks, Inc.*  
      *U.S. Patent No. 6,047,274***

Irah H. Donner  
Hale and Dorr, LLP  
The Willard Office Building  
1455 Pennsylvania Avenue, N.W.  
Washington, DC 20004-1008

Dear Mr. Donner:

We represent Geophonic Networks, Inc. ("Geophonic") in connection with its rights under U.S. Patent No. 6,047,274 (the "'274 Patent"). We are writing in response to your January 25, 2002 letter to Jack Johnson and related reminder dated March 18, 2002.

We believe the auction process for basic generation service in New Jersey in which Public Service Electric and Gas Company, GPU Energy, Conectiv and Rockland Electric Company (the "EDCs") participated on February 4-15, 2002 (the "BGS Auction") clearly infringed Claims 10, 40, 41 and 44 of the '274 Patent and likely infringed several other independent claims as well as numerous dependent claims. A claim chart summarizing our understanding of how the BGS Auction process relates to Claims 10, 40, 41 and 44 is attached. This claim chart is illustrative, provided for discussion purposes only, and is intended to provide one example of how these claims apply to the BGS Auction process. Geophonic reserves the right to assert that the BGS Auction process infringes any or all of the other claims of the '274 Patent as well, either literally or under the doctrine of equivalents.

Irah H. Donner

April 30, 2002

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Geophonic is willing to offer the EDCs a license under the '274 Patent that would retroactively cover the BGS Auction as well as future auctions for basic generation service in New Jersey approved by the New Jersey Board of Public Utilities. The fee for the license would be 0.50% (50 basis points) of the total value of aggregate electric energy usage based on rates established by such auctions. The impact of this fee on the rates achieved in the BGS Auction will be very modest, about \$0.0003 per kilowatt-hour (e.g., the auction rate for PSE&G would effectively change from \$0.0511 to \$0.0514 per KwH).

We believe this fee is reasonable based on (i) energy procurement costs in general in the retail and wholesale brokered and exchange energy markets, (ii) the substantial benefits achieved using this patented auction process (e.g., significantly lower prices and much broader diversity of suppliers than would be reasonably achievable using other forms of competitive bidding), (iii) the auction's successful fulfillment of 100% of the projected demand, obviating the need for the EDCs to resort to the spot market, and (iv) the proprietary and unique nature of this patented energy procurement process compared to more traditional approaches (e.g., sealed bids).

We are willing to discuss reasonable payment terms with respect to the fees related to the BGS Auction as well as terms for payments related to any future auctions.

Please call me at your earliest convenience so that we can discuss this matter further.

Very truly yours,



David W. Opderbeck

'274 PATENT - CLAIM 10

<u>CLAIM</u>	<u>BGS AUCTION</u>
Receiving in the moderating computer, economic incentive data specifying the economic incentive each provider will place on a unit of energy provided to each of the plurality of end users.	The participants in the BGS auction submit the number of tranches of electric power they are willing to supply to each EDC at a given price. Each tranche represents a unit of power to be provided to the set of end users served by that EDC. The number of tranches a participant is willing to supply at a given price represents that participant's "economic incentive data." This data is processed in a computer.
Processing the economic incentive data to determine which of the economic incentive data correspond to a first set of end users and to produce derivative data.	The data is processed to determine which data applies to which EDC's set of end users and whether, and to what extent, the total number of tranches required to meet the needs of each participating EDC's set of end users has been subscribed or over-subscribed.
Storing the economic incentive data and derivative data in a data base of the moderating computer as first end-user set data.	The processed data is stored in a computer.
Transmitting at least a portion of the first-end user set data to at least a portion of the plurality of energy providers.	A portion of the processed data is transmitted to the participating suppliers by specifying the number of tranches bid, within a range, at each price point.
Processing in the moderating computer the first end-user set data in order to select a provider of the plurality of energy providers for the provision of energy to the first set of end users.	The processed data is further processed in a computer and a new bid price is announced. The process continues until all the tranches are subscribed (and no longer over-subscribed) and suppliers have been selected from among the auction participants to supply the tranches to each participating EDC's set of end users.
Transmitting a selection notification to the provider of the plurality of energy providers that is selected by the moderating computer, based on the first end-user set data, to be the selected provider of energy to the first set of end users.	The relevant final bidding round data or equivalent information is transmitted to each of the respective winning suppliers.
Transmitting a copy of the selection notification to a local energy distribution company that distributes energy to the first set of end users whose energy requirements are to be supplied by the selected provider of energy.	The relevant final bidding round data or equivalent information is transmitted to each respective EDC.

CLAIM 40

CLAIM	BGS AUCTION
Receiving in the moderating computer, economic incentive data specifying the economic incentive each provider will place on a unit of energy provided to each of the plurality of end users.	The participants in the BGS auction submit the number of tranches of electric power they are willing to supply to each EDC at a given price. Each tranche represents a unit of power to be provided to the set of end users served by that EDC. The number of tranches a participant is willing to supply at a given price represents that participant's "economic incentive data." This data is processed in a computer.
Processing the economic incentive data to determine which of the economic incentive data correspond to a first set of end users and to produce derivative data.	The data is processed to determine which data applies to which EDC's set of end users and whether, and to what extent, the total number of tranches required to meet the needs of each participating EDC's set of end users has been subscribed or over-subscribed.
Storing the economic incentive data and derivative data in a data base of the moderating computer as first end-user set data.	The processed data is stored in a computer.
Transmitting at least a portion of the first-end user set data to at least a portion of the plurality of energy providers.	A portion of the processed data is transmitted to the participating suppliers by specifying the number of tranches bid, within a range, at each price point.
Processing in the moderating computer the first end-user set data in order to select a provider of the plurality of energy providers for the provision of energy to the first set of end users.	The processed data is further processed in a computer and a new bid price is announced. The process continues until all the tranches are subscribed (and no longer over-subscribed) and suppliers have been selected from among the auction participants to supply the tranches to each EDC's set of end users.
Transmitting a selection notification to the provider of the plurality of energy providers that is selected by the moderating computer, based on the first end-user set data, to be the selected provider of energy to the first set of end users.	The relevant final bidding round data or equivalent information is transmitted to each of the respective winning suppliers.

CLAIM 41

<u>CLAIM</u>	<u>BGS AUCTION</u>
Receiving in the moderating computer, economic incentive data specifying the economic incentive each provider will place on a unit of energy provided to each of the plurality of end users.	The participants in the BGS auction submit the number of tranches of electric power they are willing to supply to each EDC at a given price. Each tranche represents a unit of power to be provided to the set of end users served by that EDC. The number of tranches a participant is willing to supply at a given price represents that participant's "economic incentive data." This data is processed in a computer.
Processing the economic incentive data to determine which of the economic incentive data correspond to a first set of end users and to produce derivative data.	The data is processed to determine which data applies to which EDC's set of end users and whether, and to what extent, the total number of tranches required to meet the needs of each participating EDC's set of end users has been subscribed or over-subscribed.
Storing the economic incentive data and derivative data in a data base of the moderating computer as first end-user set data.	The processed data is stored in a computer.
Transmitting at least a portion of the first-end user set data to at least a portion of the plurality of energy providers.	A portion of the processed data is transmitted to the participating suppliers by specifying the number of tranches bid, within a range, at each price point.
Processing in the moderating computer the first end-user set data in order to select a provider of the plurality of energy providers for the provision of energy to the first set of end users.	The processed data is further processed in a computer and a new bid price is announced. The process continues until all the tranches are subscribed (and no longer over-subscribed) and suppliers have been selected from among the auction participants to supply the tranches to each EDC's set of end users.
Transmitting a selection notification to the provider of the plurality of energy providers that is selected by the moderating computer, based on the first end-user set data, to be the selected provider of energy to the first set of end users.	The relevant final bidding round data or equivalent information is transmitted to each of the respective winning suppliers.
Transmitting to a computer associated with the selected provider's network management computer, a specification of energy requirements the selected provider should expect to provide to the first set of end users.	The estimated energy requirements of each EDC's set of end users to be supplied by the winning suppliers is transmitted to each of the energy suppliers participating in the auction, including the respective winning suppliers.
Transmitting a copy of the selection notification to a local energy distribution company that distributes energy to the first set of end users whose energy requirements are to be supplied by the selected provider of energy.	The relevant final bidding round data or equivalent information is transmitted to each respective EDC.
The local energy company transmitting to the selected provider, periodic usage reports of energy usage by the first set of end users.	Each EDC delivering power to its set of end users will provide periodic usage reports to the winning suppliers that are supplying electric energy to such EDC's set of end users pursuant to their winning auction bids.

CLAIM 44

<u>CLAIM</u>	<u>BGS AUCTION</u>
Collecting economic incentive data from a plurality of energy providers.	The participants in the BGS auction submit the number of tranches of electric power they are willing to supply to each EDC at a given price. Each tranche represents a unit of power to be provided to the set of end users served by that EDC. The number of tranches a participant is willing to supply at a given price represents that participant's "economic incentive data." This data is processed in a computer.
Transmitting at least a portion of the economic incentive data to at least a portion of the energy providers, whereby each energy provider has an opportunity to adjust its bids in view of the bids of competing energy providers.	A portion of the processed data is transmitted to the participating suppliers by specifying the number of tranches bid, within a range, at each price point.
Prioritizing the economic incentive data that apply to a first set of end users.	The data is processed to determine which data applies to which EDC's set of end users and whether, and to what extent, the total number of tranches required to meet the needs of each participating EDC's set of end users has been subscribed or over-subscribed.
Designating a first energy provider to be the designated provider of energy to the first set of end users on the basis of the prioritized economic incentive data.	The processed data is further processed in a computer and a new bid price is announced. The process continues until all the tranches are subscribed (and no longer over-subscribed) and suppliers have been selected from among the auction participants to supply the tranches to each EDC's set of end users.
Informing the designated provider of its designation, a specification of estimated energy requirements and periodic usage reports, thereby enabling the first energy provider to efficiently adjust its energy supply.	The relevant final bidding round data or equivalent information is transmitted to each of the respective winning suppliers. The estimated energy requirements of each EDC's set of end users to be supplied by the winning suppliers is transmitted to each of the energy suppliers participating in the auction, including the respective winning suppliers. Each EDC delivering power to its set of end users will provide periodic usage reports to the winning suppliers that are supplying electric energy to such EDC's set of end users pursuant to their winning auction bids.